DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

MORTGAGE AND LOAN INSURANCE PROGRAMS

SUMMARY OF THE BUDGET ESTIMATE

A. Mortgage Insurance Commitment Limitations. The Budget requests an overall mortgage insurance commitment limitation of $181 billion on new fiscal year 2003 FHA loan commitments. The proposed total includes $160 billion under the Mutual Mortgage and Cooperative Management Housing Insurance (MMI/CMHI) Fund, which will exclusively support insurance of home mortgages; and $21 billion under the General and Special Risk Insurance (GI/SRI) Fund which supports home, multifamily rental, and an assortment of special purpose (hospitals, nursing homes, etc.) mortgage insurance.

B. Direct Loan Limitations. The Budget requests a direct loan limitation of $50 million under the MMI/CMHI account. A direct loan limitation of $50 million is also requested for the GI/SRI account. These direct loans will be used to facilitate the acquisition and disposition by non-profit intermediaries of FHA single family and multifamily acquired properties.

C. Appropriations for Administrative Expense. The Budget requests a total of $776 million for administrative and administrative contract expenses in the FHA program accounts. Of this total, $572 million will be transferred to Salaries and Expenses (S&E), HUD; $24 million will be transferred to the appropriation for the Office of Inspector General; and $180 million for administrative contract expenses. Of the total $596 million to be made available by transfer to the Department's Salaries and Expenses S&E and The Office the Inspector General (OIG) accounts, $363 million would be funded in the MMI/CMHI account and $233 million would be in the GI/SRI account.

D. Appropriation for Mortgage Insurance Credit Subsidies. The Budget requests an appropriation of $15 million to support the credit subsidies associated with loan guarantees committed under the FHA's GI/SRI account. The credit subsidy is based on the net cost to the Government, exclusive of administrative expenses, of a direct loan or loan guarantee over its full term, discounted to present value at the Treasury's borrowing cost. In cases where premium and fee income is projected to be more than sufficient to support full costs (i.e., there is no net Federal cost), negative credit subsidy is generated as revenue to offset other spending or reduce the deficit.

PROGRAM DESCRIPTION

Through mortgage insurance, FHA helps lenders reduce their exposure to risk of default. This assistance allows lenders to make money available to more borrowers for home and home improvement loans, and apartment, hospital, and nursing home loans. FHA provides a vital link to financing for America's housing needs.

Mortgage insurance has made financing available in neighborhoods and geographic areas facing economic uncertainty, and to individuals and families not adequately served by the conventional mortgage market. FHA has been a product innovator, and has seen the private sector follow with similar products and terms once they learn from FHA's experience. FHA spreads and manages risk through geographically dispersed loan insurance activity and a portfolio that is diverse in borrowers and products.

Supporting FHA Administrative Costs

Annual Appropriations Acts include amounts under the MMI/CMHI and GI/SRI program accounts to be transferred to the Department's Salaries and Expenses account and to the Office of Inspector General to support the general overhead costs associated with the administration of the various insurance funds. In addition to these amounts, the program accounts also include appropriations to pay for certain programmatic contract expenses relating to the conduct of FHA's endorsement, accounting and servicing, portfolio analysis, and other activities directly related to operations of the funds. For fiscal year 2003 the Department is proposing a total appropriation for the contract expenses of $180 million, of which $86 million is in the MMI/CMHI account and $94 million is in the GI/SRI account. Of the total appropriation, not less than $36 million is to be transferred to the Working Capital Fund for development of information technology systems for the administration of FHA programs.

Costs associated with acquisition, management and disposition of specific assets, Headquarters-directed as well as field originated, are capitalized into the costs of those properties and notes, and affect the profit or loss realized on the disposition of the assets. These costs are not included in the FHA contract totals in the program accounts, but rather are reflected in the net cash flows reported in the FHA liquidating and financing accounts.

STRATEGIC GOALS AND OBJECTIVES

While FHA has a specific mission and defined goals, it also contributes to the larger goals of the Department. Through its Single Family 203(k) program, which provides for combined purchase and rehabilitation financing, FHA contributes to community revitalization and development. Through its Multifamily Mixed-Income product, available to convert public and other housing to mixed-income developments, FHA contributes to opening housing markets and encouraging economic and social integration. Through FHA's Neighborhood Networks initiative, residents learn new skills and gain access to information that can help them become less dependent on assistance, and successfully make the transitions required by welfare reform. Disposition and rehabilitation of multifamily owned property are increasingly a part of the broader community plans and efforts.

FHA's ongoing objective is to continue to enhance its business capacity and to better serve its public purpose. FHA has focused significant effort to become more streamlined, market-driven, and effective in furthering the Nation's community and housing goals, including increasing the national homeownership rate to an all time high. More remains to be done to ensure that FHA is a blend of the best of public and private business worlds: a business-driven entity created to serve a public mission, and flexible enough to act quickly and cost-effectively in rapidly changing markets.

The fiscal year 2003 Budget provided strategic goals for the Department, including: (1) make the homebuying process less complicated, the paperwork demands less demanding and the mortgage process itself less expensive; (2) help families move from rental housing to homeownership; (3) improve the quality of public housing and provide more choices for its residents; (4) strengthen and expand faith-based and community partnerships that enhance communities; (5) effectively address the challenge of homelessness; (6) embrace high standards of ethics, management and accountability; (7) ensure equal opportunity and access to housing; and (8) support community and economic development efforts.

Establishing these goals, with appropriate objectives and indicators, enables FHA to focus activities on measurable results. Specific objectives and performance measures for the MMI and GI/SRI funds are discussed in each of the following sections.

MUTUAL MORTGAGE AND COOPERATIVE MANAGEMENT HOUSING INSURANCE ACCOUNT

PROGRAM HIGHLIGHTS

		ACTUAL 2001	ENACTED 2002	ESTIMATE 2003	INCREASE + DECREASE - 2003 vs 2002
		(Dollars in Millions)			
APPROPRIATION REQUEST					
Insurance Commitment Limitation		$160,000	$160,000	$160,000	...
Use		-$134,841	-$147,339	-$142,441	+$4,898
Subtotal		$25,159	$12,661	$17,559	+$4,898
Direct Loan Limitation		$250	$250	$50	-$200
Administrative Transfers (S&E & OIG)		$331	$337	$348	+$11
Reserve for Retiree costs	a/	[$16]	[$16]	$15	-$1
Rescission		-$1	NA	NA	NA
Non-overhead admin. costs		$160	$160	$86 b/	-$74
Discretionary outlays (Net)					
Program Account Discretionary Outlays		$506	$527	$428	-$99
Reserve for Retiree Costs	a/	[$16]	[$16]	$15	-$1
Subtotal		$506	$527	$443	-$100
Mandatory Outlays (Net):					
Mandatory Outlays, Liquidating account		$4,576	$1,178	$179	-$999
Mandatory Offsetting Collections		-$2,481	-$4,422	-$1,879	+$2,543
Subtotal		$2,095	-$3,244	-$1,700	+$1,544
Mortgage Insurance Commitments: (Units)					
Homes Current		1,191,631	1,245,755	1,175,604	-70,151
Insurance Written (units):					
Homes Current		1,007,472	1,198,842	1,160,355	-38,487
Insurance Written (dollars):					
Homes Current		$107,449	$133,557	$121,674	-$11,883
Insurance in-force (dollars):					
Homes		$459,523	$485,826	$542,896	+$57,070
Payment of insurance claims		$5,059	$3,786	$3,699	-$87
Negative Subsidy (Discretionary)		-$2,246	-$2,791	-$2,938	-$147

a/ Beginning in fiscal year 2003, the Budget presents the amounts associated with shifting the cost for benefits accrued to the Federal retirees from central accounts to affected program accounts. The costs associated with the proposal are shown on a comparable basis for program accounts in fiscal years 2001 and 2002.

b/ The lower amount requested for fiscal year 2003 includes the transfer to the working capital fund and reflects ADP systems development costs; the decrease from fiscal year 2002 represents a direct appropriation to the working capital fund for systems infrastructure and maintenance costs.

SUMMARY OF BUDGET ESTIMATES

Credit Limitation. The Budget requests $160 billion as limitation on new insurance commitments for fiscal year 2003. This limitation includes standby commitments to avoid the need for supplemental appropriations if the demand for insurance should exceed the projected level; but standby commitments are not reflected in the estimates for net outlays and receipts.

An estimated $134 billion of insurance will be written in 2002, and $122 billion in 2003.

Appropriation Request. An appropriation of $449 million is requested for administrative expenses for fiscal year 2003. Of this sum, $359 million is to be transferred to the Departmental Salaries and Expenses, $4 million to the Office of Inspector General accounts, and $86 million for contract expenses, including a transfer of not less than $21 million to the Working Capital Fund for system development.

The MMI Fund is expected to generate $2.8 billion of negative subsidy on insurance written in fiscal year 2002 at a subsidy rate of –2.07 percent, and $2.9 billion in 2003 at a subsidy rate of –2.53 percent.

Administration Legislative Proposal. The President's 2003 Budget corrects a long-standing understatement of the true cost of the Civil Service Retirement System (CSRS) and the Federal Health Benefits Program (FEHB). For some time, the accruing charge of CSRS and all retiree health benefits has been charged to central accounts. Beginning in fiscal year 2003, the Department's request reflects the shifting of these costs from central accounts to the Department. The $15 million represents the related charges for the MMI fund in 2003.

EXPLANATION OF INCREASES AND DECREASES

1. Mortgage Origination. FHA anticipates that it will endorse less insurance in MMI single family mortgages in fiscal year 2003 ($122 billion and 1.16 million homes) than in fiscal year 2002 ($134 billion and 1.20 million homes), due to projected changes in economic conditions. However, the negative subsidy amount increases from 2002 to 2003 due to a more negative subsidy rate (-2.07 percent in 2002, and –2.53 percent in 2003). No additional commitment authority is requested in 2003 above the $160 billion in 2002.

2. Mortgage Assignment, Property Acquisitions, and Property Sales. In 2002 and 2003, FHA will acquire notes under Section 601 of the 1999 Appropriations Act. These notes will be transferred to joint venture partners, with the partner providing an upfront payment to FHA at the time of the transfer. FHA will retain an equity interest until the partner disposes of the notes, and will receive additional payments for that interest.

The claim costs for acquired properties is projected to be an estimated 3 percent below the 2002 levels, using the claim rates from the 2001 Actuarial Review, as adjusted for program changes. These changes include increased use of the loss mitigation techniques in 2002 and 2003, and increased use of note claims under Section 601 of the 1999 Appropriations Act. Sales of properties are projected based on the estimated inventory at the end of fiscal year 2002 and estimated acquisitions in fiscal year 2003.

3. Additional Request An additional $16 million is included for 2001 and 2002 for full funding of retiree health benefits, and of CSRS retirement benefits, and an additional $15 million in 2003.

4. Financial Activity. Net outlays in 2003 are estimated at -$3.5 billion for all accounts, including the off-budget financing accounts.

The fiscal year 2003 Budget shows negative subsidy disbursed to the Liquidating Account through the financial planning period, where it can be invested in special Treasury secutities and earn interest.

PROGRAM DESCRIPTION AND ACTIVITY

Mortgage and Loan Insurance Programs (FHA Fund)

MMI/CMHI Funds. The Mutual Mortgage Insurance Fund consists of the basic single family home mortgage program (Section 203(b)), the largest of all the FHA programs.

The Section 203(b) program, enacted in the National Housing Act of 1934, provides mortgage insurance for one- to four-family residences. This program has contributed to expanding the opportunities for homeownership in the United States and will continue to meet the needs of first-time homebuyers, working families, and minority families, as well as underserved communities, especially central city and rural areas. Under the 203(b) program, any person able to meet the cash investment, mortgage payments and credit requirements may obtain an FHA-insured loan from a private lending institution to purchase a home. Since its inception through September 30, 2000, the MMI Fund has insured approximately $1.2 trillion in mortgages for about 19 million families.

The Cooperative Management Housing Insurance Fund contains the Cooperative Housing Insurance program (Section 213), which provides mortgage insurance for cooperative housing projects of more than five units that are occupied by members of a cooperative housing corporation. The insurance program can be used for new construction, rehabilitation, acquisition, improvement or repair of a project and resale of individual memberships in the cooperative. This program was enacted in 1950 and only minor program activity has occurred in recent years.

A reduction in the direct loan program is proposed from the $250 million limitation enacted for 2002 to $50 million in 2003. The $250 million limitation was in anticipation of increased demand for the disposition of single family properties which has not occurred due to the availability of alternative financing.

PROPOSED CHANGES FOR 2003 FROM THE 2002 BUDGET ASSUMPTIONS:

Single Family proposes for MMI:

- Claim estimates from the claim rates in the 2001 Actuarial Review, as adjusted for anticipated programmatic changes;
- Implementation of the Hybrid ARMs legislation enacted as part of the 2002 Budget;
- Implementation of the mortgage notes program authorized in section 601 of the 1999 Appropriations Act is now anticipated to begin in 2002, a delay of one year from the 2002 Budget assumption; and
- Recoveries on properties to net 65 percent, in line with current recoveries.

STRATEGIC GOALS AND OBJECTIVES: RESOURCES REQUESTED ($ AND FTE) AND RESULTS

The strategic goals established for the Department are to: (1) make the homebuying process less complicated, the paperwork demands less demanding and the mortgage process itself less expensive; (2) help families move from rental housing to homeownership; (3) improve the quality of public housing and provide more choices for its residents; (4) strengthen and expand faith-based and community partnerships that enhance communities; (5) effectively address the challenge of homelessness; (6) embrace high standards of ethics, management and accountability; (7) ensure equal opportunity and access to housing; and (8) support community and economic development efforts.

SELECTED PERFORMANCE MEASURES

NOTE: Targets are preliminary and may be revised with the submission of the full APP document.

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Goal 1: Make the home-buying process less complicated, the paperwork less demanding and the mortgage process less expensive.			
Discretionary BA (Dollars in Thousands)	$22,200	$22,300	$19,500
FTE			

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Headquarters	0	0	0
Field	44	45	45
Subtotal	44	45	45
Strategic Objective 1.1: Reform Real Estate Settlements Procedures Act (RESPA) rules.			
Indicator: Average closing costs for FHA loans goes down from fiscal years 2001-2006.	Baseline TBD	NA	NA
Strategic Objective 1.2: Eliminate practices that permit predatory lending.			
Indicator: By the end of fiscal year 2003, FHA will prevent the issuance of FHA mortgage insurance on properties that have been transferred within 6 months.	NA	NA	Implement rule
Indicator: FHA will restrict excessive points and fees on FHA loans.	NA	NA	Publish rule
Strategic Goal 2: Help families move from rental housing to homeownership.			
Discretionary BA (Dollars in Thousands)	$311,800	$315,800	$276,900
FTE			
Headquarters	101	112	112
Field	519	527	527
Subtotal	620	639	639
Strategic Objective 2.1: Expand national homeownership opportunities.			
Indicator: Improve National homeownership opportunities	68.1%	68.5%	NA
Indicator: Loss mitigation claims are more than 40 percent of total claims on FHA-insured single-family mortgages	46%	48%	40%
Indicator: The share of all homebuyers who are first-time homebuyers	Data not available	NA	NA
Indicator: The number of FHA single-family mortgage insurance endorsements nationwide.	1,067,000	NA	NA
Indicator: First-time homebuyers will account for at least 80 percent of FHA-insured home-purchase mortgages.	80%	82%	80%
Indicator: The homeownership rate among households with incomes less than median family income.	52.6%	NA	NA

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Indicator: The homeownership rate in central cities.	52.3%	NA	NA
Strategic Objective 2.2: Expand homeownership opportunities for minorities and persons with disabilities.			
Indicator: The minority homeownership rate will increase to 50 percent.	49.2%	NA	50%
Indicator: The ratio of homeownership rates of minority and nonminority low and moderate-income families with children increases by 0.4 percentage points to 76.0 percent by 2003.	75.6% anticipated	NA	76%
Indicator: The ratio of home purchase mortgage disapproval rates between minority and other applicants.	175.4% anticipated	NA	NA
Indicator: The share of minority homebuyers among FHA home purchase-endorsements increases by 1 percentage point.	45%	46%	47%
Indicator: The share of minority endorsements processed by the FHA Technology Open To All Lenders (TOTAL) Scorecard increases by 1 percentage point.	NA	Establish Baseline	Baseline plus 1 percentage point
Indicator: Endorse at least 421,000 FHA single-family mortgages in underserved communities.	404,697	425,000	421,000
Strategic Goal 6: Embrace high standards of ethics, management and accountability.			
Discretionary BA (Dollars in Thousands)	$168,500	$170,600	$149,100
FTE			
Headquarters	196	203	203
Field	138	141	141
Subtotal	334	344	344
Strategic Objective 6.1: Improve HUD's management and internal controls, including FHA's financial management and resolve audit issues.			
Indicator: The FHA Mutual Mortgage Insurance Funds meets Congressionally mandated capital reserve targets.	3.75%	At least 2%	At least 2%
Indicator: Exceed the rate of net recovery received on the sale of property through the Accelerated Claim Program Demonstration (Section 601).	NA	Establish Baseline	Exceed Baseline
Indicator: The number of non-compliant financial management systems is reduced from 11 to 8.	NA (FY 2000 = 11)	NA	8

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Indicator: During fiscal year 2003, eight additional mission-critical data systems will be certified, increasing the total number of certified systems to fifteen.	NA	7	15
Indicator: The share of REO properties that are sold to owner occupants will increase by 5 percent.	NA	Establish Baseline	Baseline plus 5%
Indicator: FHA will address financial management and system deficiencies through the phased implementation of an integrated financial system to support FHA functions to be completed by December 2006.	NA	NA	NA
Strategic Objective 6.2: Improve accountability, service delivery and customer service of HUD and our partners.			
Indicator: HUD will implement procedures to hold lenders accountable for the selection and performance of appraisers for FHA-insured mortgages.	NA	Publish proposed rule	Implement procedures
Strategic Goal 7: Ensure equal opportunity and access to housing.			
Discretionary BA (Dollars in Thousands)	$3,000	$3,000	$2,600
FTE			
Headquarters	6	6	6
Field	0	0	0
Subtotal	6	6	6
Strategic Objective 7.1: Reduce housing discrimination.			
Indicator: The share of FHA loan applications processed through Automated Underwriting Systems increases by 10 percentage points.	NA	Establish Baseline	Baseline plus 10 percentage points
Strategic Goal 8: Support community and economic development efforts.			
Discretionary BA (Dollars in Thousands)	$500	$1,000	$900
FTE			
Headquarters	1	2	2
Field	0	0	0
Subtotal	1	2	2
Strategic Objective 8.2: Help communities more readily access revitalization resources to become more livable.			
FTE Total	**1,005**	**1,036**	**1,036**

Mortgage and Loan Insurance Programs (FHA Fund)

NA = Not applicable.

GENERAL AND SPECIAL RISK INSURANCE ACCOUNT

PROGRAM HIGHLIGHTS

		ACTUAL 2001	ENACTED 2002	ESTIMATE 2003		INCREASE + DECREASE - 2003 vs 2002
			(Dollars in Millions)			
APPROPRIATION REQUEST						
Insurance Commitment Limitation		$21,000	$21,000	$21,000		...
Direct Loans Limitation		$50	$50	$50		...
Budget Authority						
Administrative Expenses		$211	$216	$224		+$8
Reserve for Retiree Costs	a/	[$10]	[$10]	$9		-$1
Contract Expenses		$144	$144	$94	b/	-$50
Positive Credit Subsidy		$101	$15	$15		...
Supplemental		$40 c/	...	...		...
Rescission		-$1	...	...		...
Subtotal		$495	$375	$342		-$43
Program level						
Use of insurance commitment limitation		$15,418	$17,003	$18,689		+$1,686
Administrative Expenses						
Appropriation, S&E Transfer		$211	$216	$224		+$8
Reserve for Retiree Costs	a/	[$10]	[$10]	$9		-$1
Appropriation, Contract Costs ..		$144	$144	$94	b/	-$50
Subtotal		$355	$360	$327		-$43
Credit Subsidy Reservations:						
Appropriations		$101	$15	$15		...
Insurance Commitments (dollars) :						
Multifamily		$3,362	$5,299	$6,324		+$1,025
Hospitals		$279	$100	$500		+$400
Homes		$10,152	$9,877	$9,877		...
Title I		$167	$227	$188		-$39
Nursing Homes (includes refis) .		$1,458	$1,500	$1,800		+$300
Subtotal		$15,418	$17,003	$18,689		+$1,686
Insurance Written (units):						
Multifamily		68,465	83,500	107,689		+24,189
Hospitals		...	...	...		...
Homes		96,327	102,067	102,067		...
Title I		12,235	14,077	9,500		-4,577
Nursing Homes (includes refis)		26,963	32,235	35,704		+3,469
Subtotal		203,990	231,879	254,960		+23,081
Insurance Written (dollars):						
Multifamily		$3,353	$5,323	$6,068		+$745
Hospitals		$107	$100	$500		+$400
Homes		$10,152	$9,877	$9,877		...
Title I		$167	$227	$188		-$39

	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003	INCREASE + DECREASE - 2003 vs 2002
		(Dollars in Millions)		
Nursing Homes (includes refis) .	$1,458	$1,500	$1,800	+$300
Subtotal	$15,237	$17,027	$18,433	+$1,406

a/ Beginning in fiscal year 2003, the Budget presents the amounts associated with shifting the cost for benefits accrued to the Federal retirees from central accounts to affected program accounts. The costs associated with the proposal are shown on a comparable basis for program accounts in fiscal years 2001 and 2002.

b/ The lower amount requested for fiscal year 2003 includes the transfer to the working capital fund and reflects ADP systems development costs; the decrease from fiscal year 2002 represents a direct appropriation to the working capital fund for systems infrastructure and maintenance costs.

c/ Emergency supplemental appropriation was provided by Congress but not requested by the Department.

SUMMARY OF BUDGET ESTIMATES

A. Credit Limitation. A limitation on new insurance commitments for fiscal year 2003 of $21 billion is requested. It is estimated that $8.1 billion in insurance will be issued for multifamily and healthcare related programs in fiscal year 2003 for 143,393 units. Another $500 million is estimated in hospital mortgage insurance. Single family and Title I commitments are projected at $10 billion in fiscal year 2003 for an estimated 111,567 units.

A direct loan limitation of $50 million is requested. Of this amount, $30 million is intended for bridge loan financing to facilitate the sale of multifamily projects, and $20 million is for 5-year purchase money mortgages for non-profit and governmental agencies to make HUD-acquired single family properties available for resale to purchasers at or below 115 percent of area median incomes.

B. Appropriations. The 2003 request includes appropriations of $15 million for positive credit subsidy necessary for commitments related to various multifamily programs and for the Title I property improvements loan program in the GI/SRI program account. Appropriations of $327 million in administrative expenses are requested for 2003, of which $213 million is transferred to the Departmental Salaries and Expenses Account, $20 million is transferred to the Office of Inspector General account, and $94 million for contract expenses, including a transfer of not less than $14 million to the Working Capital Fund for system development.

C. Administration Legislative Proposal. The President’s 2003 Budget corrects a long-standing understatement of the true cost of the Civil Service Retirement System (CSRS) and the Federal Health Benefits Program (FEHB). For some time, the accruing charge of CSRS and all retiree health benefits has been charged to central accounts. Beginning in fiscal year 2003, the Department’s request reflects the shifting of these costs from central accounts to the Department. The $9 million represents the related charges for the GI/SRI fund in 2003.

	ACTUAL 2001	CURRENT ESTIMATE 2002	ESTIMATE 2003	INCREASE + DECREASE - 2002 vs 2003
		(Dollars in Millions)		
APPROPRIATION REQUEST				

Mortgage and Loan Insurance Programs (FHA Fund)

	ACTUAL 2001	CURRENT ESTIMATE 2002	ESTIMATE 2003	INCREASE+ DECREASE - 2002 vs 2003	
		(Dollars in Millions)			
INSURANCE COMMITMENT					
Limitation Enacted/Requested	$21,000	$21,000	$21,000	...	
Direct Loans	50	50	50	...	
BUDGET AUTHORITY					
Discretionary:					
Administrative Expenses (S&E)	211	216	224	+8	
Reserve for retiree costs	[10]	[10]	9	+1	
Non-overhead administrative expenses.	144	144	94	-50	
Positive Subsidy Appropriations ..	101	15	15	...	
Supplemental	40	...	...	...	
Rescission..	-1	...	...	...	
Total Discretionary Approp	495	375	342	-41	
Offsetting Receipts	-103	-257	-173	+84	
Legislative Savings	...	-218	...	+218	
Mandatory:					
Liquidating account (net)	2,474	1,009	1,023	+14	
Mortgage sales	[-393]	[-163]	[-208]	[-45]	
Program Account Upward Reestimate...	246	995	NA	-995	
Receipt Account	...	-113	-40	+73	
Receipt Account Downward Reestimate		-517	-1,542	NA	+1,542
BUDGET OUTLAYS					
Discretionary:					
Administrative expenses (S&E) ...	211	216	224	+8	
Reserve for retiree costs	[10]	[10]	9	+1	
Non-overhead administrative expenses	120	144	107	-37	
Credit Subsidy	100	36	15	-21	
Offsetting receipts	-103	-475	-173	+302	
Mandatory:					
Liquidating account (net)	73	1,278	958	-320	
Program Account Upward Reestimate...	246	995	NA	-995	
Receipt Account	...	-113	-40	+73	
Receipt Account Downward Reestimate		-517	-1,542	NA	+1,542

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2003 request also includes estimated commitments of $19 billion in loan programs where the present value of projected revenues from new insurance exceeds the present value of estimated costs, resulting in the generation of negative credit subsidy. This negative credit subsidy of $173 million from new insurance will be a discretionary offset against the total budget authority of the Department.

PROGRAM DESCRIPTION AND ACTIVITY

A. GI/SRI Insurance Programs. The Department will continue to offer a range of alternative loan guarantee programs to address specialized mortgage financing needs. These products include mortgage insurance for rehabilitating, developing, and refinancing of apartment buildings, nursing home facilities, nonprofit hospitals and Title I loans. The Department's insurance programs will continue to meet the Nation’s need for decent, safe and affordable housing.

B. Hospital Programs. The Department will continue the Section 242 Program, which provides mortgage insurance for loans made for the construction; renovation and/or equipping of acute care hospitals. Since the program began in 1968, FHA has insured 311 hospital mortgages totaling more than $9 billion. The Hospital Mortgage Insurance Program also includes: Section 241 supplemental loans; Section 223(a)(7) loans for refinancing existing insured projects; and Section 223(e) loans for hospitals in older, economically declining urban areas. The Hospital Mortgage Insurance Program is administered by HUD Headquarters, with support from staff at the U.S. Department of Health and Human Services.

C. <u>Multifamily Credit Subsidy Rates</u>. The Department continuously devotes significant efforts in updating and refining credit subsidy estimates. The credit subsidy estimates were developed after extensive consultation with OMB by FHA and reflect substantial additional analysis by the Department. Each year the extensive statistical base, from which projections of future loan performance is calculated, is updated for an additional year of actual data. The Department and The Office of Management and Budget (OMB) continue to examine the data, assumptions, and calculations, which are used to estimate loan program cash flows and subsidy rates in order to eliminate errors, and to seek improvements in the accuracy and reliability of the analysis.

The multifamily credit subsidy rates used in the fiscal year 2002 Budget, and in previous years, reflected historic performance data of similar loans made over the past 40 years. Numerous questions have been raised over the resulting performance assumptions yielded by this reliance on historical data in light of the substantial improvements made in recent years in underwriting, program monitoring, and asset management, as well as unprecedented changes in tax law in the 1980’s adversely affecting the performance of loans in the FHA portfolio at that time.

Concern over the accuracy of the FHA credit subsidy estimates was magnified by the depletion of appropriated subsidy amounts, and suspension of new loan guarantee commitments in the last two fiscal years. To avoid further disruption of the program in 2002, the Administration increased the premiums charged for section 221(d)(4) new construction/substantial rehabilitation loan guarantees from 50 basis points to 80 basis points, which caused this program to break-even and eliminated the requirement for appropriated credit subsidy. Freed from dependence on credit subsidy appropriations, this program has generated unprecedented loan volumes since the start of the fiscal year. The new premium structure, however, has raised concerns that the FHA subsidy estimating methodology was resulting in the imposition of excessive fees, and potentially impeding the development of affordable rental housing.

The Department and OMB agreed upon the use of a new statistical analysis applied to loan level data to estimate FHA’s historical conditional claim and prepayment rates and to project loan performance in the future. These key assumptions are modeled using such factors as the change in the 10-year bond rate and the Gross Domestic Product, the multifamily vacancy rate, and the net present value of tax benefits and to estimate these rates in the future using projected values of these variables. Use of this regression analysis combined with updated actual loan performance and other technical improvements in the cash flow model itself yielded a break-even premium for fiscal year 2003 of 57 basis points. The analysis includes all FHA multifamily data relevant to current forms of insurance; no time periods have been judgmentally excluded. The econometric analysis, however, adjusts expected performance to account for the effects of changes in the economy and in tax treatment of multifamily investments.

This premium reduction will be effective for loans made in fiscal year 2003. In addition, FHA will reduce the premium for section 207 manufactured home parks and section 220 development loans to 61 basis points. This is a break-even premium rate for this new risk category, and requires no appropriated credit subsidy.

The modeling improvements adopted for the section 221(d)(4) program also significantly lowered the subsidy rate for the section 221(d)(3) new construction loan program for cooperatives and non-profits, and corrections in the analysis of historical data for the section 241(a) supplemental/additions program also had a similar effect. However, since positive credit subsidy continues to be required, no reduction in the 80 basis point premium for these programs is proposed.

D. Title I Program Subsidy Rates. The fiscal year 2003 estimates for the Title I Programs reflect the loan characteristics of the property improvement and the manufactured housing program, which are incorporated into the cash flows, which are used to calculate the subsidy rate for loan programs in accordance with the Federal Credit Reform Act of 1990.

E. Title II Program Single Family Subsidy Rates. The GI/SRI single family credit subsidy estimates also reflect review of loan performance. This includes updated loan performance data and assumptions of the major GI/SRI single family programs that are currently active. Those mortgage insurance programs are 234(c) Condominium Housing and 203(k) Purchase/Rehabilitation. Other small programs that do not have sufficient volume to model and estimate individually are included in the Sec. 234(c) risk category for budgetary purposes.

The following table displays the estimated allocation of commitment authority and subsidy by program for fiscal year 2003.

GI/SRI PROGRAMS	Commitment Authority FY 2003	Subsidy Rate FY2003	Positive Subsidy BA FY 2003
Multifamily & Healthcare			
Apartments NC/SR (includes Mixed Use)	$3,500,000,000	-0.06%	
221 (d3) NP coop owned apts.	$200,000,000	3.93%	$7,860,000
Tax Credit Projects	$500,000,000	-0.65%	
Mixed Income d4 (Hope VI)	$50,000,000	-0.33%	
Apartments Refinance	$960,000,000	-2.17%	
241a Supplemental loans for Apts.	$50,000,000	6.35%	$3,175,000
223 Operating Loss Loans	$8,500,000	18.69%	$1,588,650
HFA Risksharing	$650,000,000	-1.37%	
GSE Risksharing	$105,000,000	-1.36%	
FHA Full Insurance for Health Care Facilities	$1,300,000,000	-1.19%	
Health Care Refinance	$500,000,000	-1.97%	
Other Rental	$300,000,000	-0.07%	
Hospitals (includes refi. & Suppl. Loan)	$500,000,000	-2.76%	
Multifamily & Healthcare Subtotal	**$8,623,500,000**		**$12,623,650**
Single Family Programs			
Title I			
Property Improvements	$117,750,000	2.02%	$2,378,550
Manufactured Housing	$70,000,000	-0.47%	
Title I Subtotal	**$187,750,000**		**$2,378,550**
Title II			
234 Condominium Housing & Other	$8,482,000,000	-1.08%	
203(k) Rehabilitation Mortgage	$1,395,000,000	-0.46%	
Title II Subtotal	**$9,877,000,000**		
Single Family Subtotal	$10,064,750,000		$2,378,550
Stand-by Authority	$2,311,750,000		
GI/SRI TOTAL	**$21,000,000,000**		**$15,002,200**

F. Office of Multifamily Housing Assistance Restructuring (OMHAR). The Multifamily Assisted Housing Reform and Affordability Act of 1997 was enacted in the 1998 Appropriations Act. The legislative authority establishing OMHAR ended September 30,2001. However, Public Law 107-116 extends OMHAR as an entity within the Office of Housing for 3 years and extends the attendant mortgage restructuring authority for 5 years. The extension of the Mark-to-Market program authority is estimated to reduce net FHA costs by $218 million over the 2002-2006 period. The debt restructuring process is expected to preserve over 130,000 units of affordable housing stock through long-term use agreements.

As of December 1, 2001 OMHAR reported completing over 1,100 rent reductions and closed 340 debt restructurings, averaging 30-35 properties per month during fiscal year 2001. The restructurings are performed through oversight of a national network of 21 public Participating Administrative Entities (PAEs), and 8 private partners. OMHAR staff is currently located in a central District of Columbia office and three satellite field offices, located in Chicago, New York and San Francisco, which oversees the program through nationally consistent guidelines, which provide for local flexibility to the extent possible.

The 1,100 transactions completed by OMHAR resulted in a reduction in annual Section 8 outlays of $79,254,894. The average rent reduction is $89 per unit per month. The reductions in future Section 8 outlays and expected recoveries of second mortgage payments exceed the one-time costs of restructuring for FHA claims and PAE costs. In addition to ensuring long-term financial viability and achieving Section 8 savings, physical and managerial assessments are conducted for each property to assure the long-term viability of the portfolio. Expenses are analyzed to ensure efficient operations. Immediate capital needs are addressed through repair escrows. Long-term physical needs are provided for through increased deposits to reserve for replacement accounts. Initial deposits to these accounts were increased on average from $1,304 to $1,994 per unit, and annual deposits increased on average from $310 to $403 per unit per year.

The M2M program realigns the owners' and HUD's interest by providing a return on the owner's equity through a capital recovery payment, an incentive performance fee, and 25 of net cash flow. The financial structure of the properties is designed to ensure efficient operations and maintenance of the properties. HUD is closely monitoring the performance of restructured properties through a portfolio management contract and through a "watch list" for at-risk properties which had rents reduced without a debt restructuring.

A significant amount of work still remains to be completed. Approximately 800 deals are currently in various stages of restructuring. There are another 3,400 Section 8 contracts expiring over the life of OMHAR's proposed extension, at least a third of which are estimated to be above market and eligible for Mark-to-Market.

G. Mortgage Note Sales. FHA successfully executed GI/SRI Multifamily Mortgage Note Sales in fiscal year 2001 which will continue into 2004. In 2001, FHA sold 139 unsubsidized mortgage notes with an unpaid principal balance (UPB) of $623 million. These notes were valued to HUD at $332 million. The net sales proceeds amounted to $426 million. Negative subsidies realized from the sales amounted to $94 million.

FHA plans to continue selling Multifamily unsubsidized mortgage notes in fiscal year 2002 through 2004. Currently, large portions of the remaining multifamily notes are subsidized. Therefore, FHA is also planning to sell the subsidized inventory staring in fiscal year 2003. Ongoing note sale activity in the future will be driven by the amount of salable notes entering the inventory

H. Multifamily Enforcement. The Department's multifamily housing enforcement strategy reflects the integrated and coordinated efforts of the Real Estate Assessment Center (REAC) within the Office of Public and Indian Housing and the Departmental Enforcement Center (DEC), an element of the Office of the General Counsel. REAC is completing a comprehensive and uniform portfolio wide assessment of the physical and financial condition of all the properties. Results are being forwarded to Housing's Multifamily Hubs for additional actions. The Multifamily Hubs are responsible for servicing the loans and overseeing subsidy contracts. In those cases where there appear to be severe performance problems, cases are referred to the DEC. The DEC evaluates each case it receives and, where the DEC decides that severe problems exist, the DEC provides an action plan to be implemented by the Hubs to address the problem(s). Qualitative improvement in the assessment and enforcement effort is being realized through the centralization and specialization of these staff. The ultimate goal, however, is improved living conditions for residents, improved neighborhoods, communities, and improved financial performance for FHA because performance standards for participants are raised.

STRATEGIC GOALS AND OBJECTIVES: RESOURCES REQUESTED ($ AND FTE) AND RESULTS

The strategic goals established for the Department are to: (1) make the homebuying process less complicated, the paperwork demands less demanding and the mortgage process itself less expensive; (2) help families move from rental housing to homeownership; (3) improve the quality of public housing and provide more choices for its residents; (4) strengthen and expand faith-based and community partnerships that enhance communities; (5) effectively address the challenge of homelessness; (6) embrace high standards of ethics, management and accountability; (7) ensure equal opportunity and access to housing; and (8) support community and economic development efforts.

SELECTED PERFORMANCE MEASURES

NOTE: Targets are preliminary and may be revised with the submission of the full APP document.

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Goal 1: Make the home-buying process less complicated, the paperwork less demanding and the mortgage process less expensive.			
Discretionary BA (Dollars in Thousands)	$1,900	$1,400	$1,300
FTE			
Headquarters	0	0	0
Field	5	5	5
Subtotal	5	5	5
Strategic Objective 1.1: Reform Real Estate Settlements Procedures Act (RESPA) rules.			
Indicator: Average closing costs for FHA loans goes down from fiscal years 2001-2006.	Baseline TBD	NA	NA
Strategic Objective 1.2: Eliminate practices that permit predatory lending.			
Indicator: By the end of fiscal year 2003, FHA will prevent the issuance of FHA mortgage insurance on properties that have been transferred within 6 months.	NA	NA	Implement rule
Indicator: FHA will restrict excessive points and fees on FHA loans.	NA	NA	Publish rule
Indicator: By the end of fiscal year 2003, FHA will prevent the issuance of FHA mortgage insurance on properties that have been transferred within 6 months.			
Strategic Goal 2: Help families move from rental housing to homeownership.			
Discretionary BA (Dollars in Thousands)	$224,700	$169,200	$152,200
FTE			
Headquarters	40	46	46

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Field	554	562	562
Subtotal	594	608	608
Strategic Objective 2.1: Expand national homeownership opportunities.			
Indicator: Improve National homeownership opportunities	68.1%	68.5%	NA
Indicator: Loss mitigation claims are more than 40 percent of total claims on FHA-insured single-family mortgages	46%	48%	40%
Indicator: The share of all homebuyers who are first-time homebuyers	Data not available	NA	NA
Indicator: The number of FHA single-family mortgage insurance endorsements nationwide.	1,067,000	NA	NA
Indicator: First-time homebuyers will account for at least 80 percent of FHA-insured home-purchase mortgages.	80%	82%	80%
Indicator: The homeownership rate among households with incomes less than median family income.	52.6%	NA	NA
Indicator: The homeownership rate in central cities.	52.3%	NA	NA
Strategic Objective 2.2: Expand homeownership opportunities for minorities and persons with disabilities.			
Indicator: The minority homeownership rate will increase to 50 percent.	49.2%	NA	50%
Indicator: The ratio of homeownership rates of minority and nonminority low and moderate-income families with children increases by 0.4 percentage points to 76.0 percent by 2003.	75.6% anticipated	NA	76%
Indicator: The ratio of home purchase mortgage disapproval rates between minority and other applicants.	175.4% anticipated	NA	NA
Indicator: The share of minority homebuyers among FHA home purchase-endorsements increases by 1 percentage point.	45%	46%	47%
Indicator: The share of minority endorsements processed by the FHA Technology Open To All Lenders (TOTAL) Scorecard increases by 1 percentage point.	NA	Establish Baseline	Baseline plus 1 percentage point
Indicator: Endorse at least 421,000 FHA single-family mortgages in underserved communities.	404,697	425,000	421,000
Strategic Objective 2.3: Increase the availability of affordable rental housing.			

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Indicator: FHA endorses at least 650 multifamily mortgages.	758	800	650
Strategic Goal 3: Improve the quality of public housing and provide more choices for its residents.			
Discretionary BA (Dollars in Thousands)	$136,800	$105,700	$92,900
FTE			
Headquarters	26	31	31
Field	335	340	340
Subtotal	361	371	371
Strategic Objective 3.3: Improve physical and related conditions in public and assisted housing.			
Strategic Goal 6: Embrace high standards of ethics, management and accountability.			
Discretionary BA (Dollars in Thousands)	$87,900	$65,800	$57,800
FTE			
Headquarters	194	193	193
Field	38	38	38
Subtotal	232	231	231
Strategic Objective 6.1: Improve HUD's management and internal controls, including FHA's financial management and resolve audit issues.			
Indicator: Exceed the rate of net recovery received on the sale of property through the Accelerated Claim Program Demonstration (Section 601).	NA	Establish Baseline	Exceed Baseline
Indicator: The number of non-compliant financial management systems is reduced from 11 to 8.	NA (FY 2000=11)	NA	8
Indicator: During fiscal year 2003, eight additional mission-critical data systems will be certified, increasing the total number of certified systems to fifteen.	NA	7	15
Indicator: The share of REO properties that are sold to owner occupants will increase by 5 percent.	NA	Establish Baseline	Baseline plus 5%
Indicator: FHA will address financial management and system deficiencies through the phased implementation of an integrated financial system to support FHA functions to be completed by December 2006.	NA	NA	NA

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Objective 6.2: Improve accountability, service delivery and customer service of HUD and our partners.			
Indicator: HUD will implement procedures to hold lenders accountable for the selection and performance of appraisers for FHA-insured mortgages.	NA	Publish proposed rule	Implement procedures
Indicator: Under the M2M program, HUD will reduce the rents and where appropriate, complete a mortgage restructuring on 500 deals.	607	750	500
Strategic Goal 7: Ensure equal opportunity and access to housing.			
Discretionary BA (Dollars in Thousands)	$3,400	$2,600	$2,300
FTE			
Headquarters	2	2	2
Field	7	7	7
Subtotal	9	9	9
Strategic Objective 7.1: Reduce housing discrimination.			
Indicator: The share of FHA loan applications processed through Automated Underwriting Systems increases by 10 percentage points.	NA	Establish Baseline	Baseline plus 10 percentage points
Strategic Objective 7.3: Improve housing options for the elderly.			
Indicator: The number of assisted-living units that HUD supports through FHA insurance and conversion of Section 202 elderly units increases.	Establish Baseline	Increase over Baseline	Increase over FY 2002
Strategic Goal 8: Support community and economic development efforts.			
Discretionary BA (Dollars in Thousands)	$50,400	$40,400	$35,600
FTE			
Headquarters	12	16	16
Field	121	126	126
Subtotal	133	142	142
Strategic Objective 8.2: Help communities more readily access revitalization resources to become more livable.			
Indicator: The number of multifamily rental units in underserved areas insured by FHA increases by 5 percent.	9,526	10,000	10,500
FTE Total	**1,334**	**1,366**	**1,366**

Mortgage and Loan Insurance Programs (FHA Fund)

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003

NA = Not applicable.